

501.07-00  
501.07-05 Internal Revenue Service

Department of the Treasury



Date: DEC 15 2000

Tax Year(s) Ending:

Employer Identification Number:

Exemption under Internal Revenue

Code Section: 501(c)(7)

Person to Contact:

Identification Number:

Contact Telephone Number:

Dear Sir or Madam:

This is a Final Adverse Determination as to your exempt status under section 501(c)(7) of the Internal Revenue Code (IRC).

It has been determined that \_\_\_\_\_ is not operating as a social club within the meaning of IRC section 501(c)(7).

Your organization was built by two fraternal lodge organizations to provide your members with a facility for meetings, social events, and civic functions.

The membership has not been able to support the facility for several years. The percentage of non-member income has grown to 57.26% of gross receipts in \_\_\_\_\_ and is a greater percentage of gross income in \_\_\_\_\_.

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs, which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified, because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus, a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives

unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

Revenue Ruling 66-149, 1966-1 C.B. 146 holds that a social club is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Code where it regularly derives a substantial part of its income from nonmember sources such as, for example, dividends and interest on investments, which it owns. However, a club's right to exemption under section 501(c)(7) of the Code is not affected by the fact that for a relatively short period a substantial part of its income is derived from investment of the proceeds of the sale of its former clubhouse pending the acquisition of a new home for the club.

Based on the above, we are revoking your organization's exemption from Federal Income Tax under IRC section 501(c)(7) effective

You are required to file Federal Income Tax returns on Form 1120. These returns should be filed with the appropriate Internal Revenue Service Center for all years beginning on or after

You also have the right to contact the office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers. You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance. Or you can contact the Taxpayer Advocate from the site where the tax deficiency was determined by calling ( ) or writing to: Internal Revenue Service, ( )

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate, can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

If you have any questions in regards to this matter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely yours,



R. Slaughter  
Director, EO Examinations